

Message Text

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TAGS: ENRG, VE

SUBJECT: PETROLEUM REVERSION - CREOLE AND THE SLIDING SCALE

REF CARACAS 9978

1. THE FOLLOWING IS PROPRIETARY INFORMATION PROVIDED TO ME IN CONFIDENCE BY THE REPRESENTATIVE OF AN AMERICAN COMPANY AND NOT FOR DISSEMINATION TO THIRD PARTIES.

2. ROBERT DOLPH CONFIRMED TO ME AT BREAKFAST THIS MORNING THAT THE GOV IS ATTEMPTING TO FIX A SLIDING SCALE OF REMUNERATIONS FOR THE TECHNICAL SERVICES THE COMPANIES WILL BE PROVIDING AFTER NATIONALIZATION. AS WE HAVE REPORTED, THE SCALE IS TO OPERATE BY CATEGORIES WITH CREOLE AND SHELL RECEIVING THE HIGHEST AMOUNT PER BARREL. DOLPH SAID THE TEHORY SEEMS TO BE THAT THE BIGGEST OPERATORS WILL BE PROVIDING THE MOST EXTENSIVE AND EXPENSIVE SERVICES. HE NOTED, HOWEVER, THAT SUCH MIGHT NOT NECESSARILY BE THE CASE IF THE CALCULATION IS MADE ON A PER BARREL BASIS. FOR EXAMPLE, MENE GRANDE'S SMALL FIELDS IN EASTERN VENEZUELA REQUIRE GREATER SERVICING AND EXPENDITURES PER BARREL THAN DO CREOLE'S CONCESSIONS IN LAKE MARACAIBO.

3. IT IS DOLPH'S UNDERSTANDING THAT THERE WILL BE A CASH PAYMENT FOR EACH BARREL PRODUCED OR REFINED--NOT JUST A DISCOUNT ON PURCHASE. THE MINISTRY IS NOW THINKING OF PROVIDING IN ADDITION A MARKETING DISCOUNT ON ALL SALES TO NON-AFFILIATES.

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4. DOLPH SAID THAT HIS OWN NEGOTIATIONS HAVE COME DOWN TO THE

BOTTOM LINE--TO THE AMOUNT OF THE PER-BARREL FEE. THE GOV'S OFFER (WHICH WE ASSUME TO BE 15 CENTS) IS STILL UNSATISFACTORY BUT DOLPH BELIEVES A COMPROMISE AT A SOMEWHAT HIGHER LEVEL MAY BE POSSIBLE. A GOOD DEAL OF BARGAINING HAS ALSO TAKEN PLACE ON THE DURATION OF THE TECHNICAL-SERVICES CONTRACTS. IT HAS BEEN TENTATIVELY AGREED THAT THESE WILL RUN FOR FOUR YEARS WITH PROVISION FOR REVIEW AFTER TWO YEARS. AT THAT TIME THE PARTIES COULD AGREE TO INCREASE OR DECREASE THE PER-BARREL PAYMENTS, BUT IN NO CASE WOULD THAT FEE BE LESS THAN 90 PERCENT OF THE FIGURE FIXED FOR THE FIRST TWO YEARS. IN EFFECT, DOLPH SAID, HE WOULD BE GIVING UP 10 PERCENT IN THE THIRD AND FOURTH YEARS TO OBTAIN FOUR-YEAR CONTRACTS. THE TIMING INSULATES THE CONTRACTS REASONABLY WELL FROM THE PASSIONS OF ELECTORAL POLITICS; I.E., THE FIRST TWO YEARS WOULD END ELEVEN MONTHS BEFORE THE 1978 ELECTION; FOUR YEARS TAKES US WELL INTO THE TERM OF VENEZUEL'S NEXT PRESIDENT.

5. COMMENT: AS WE GO INTO THE QUESTION, WE ARE MORE INCLINED TO RESERVE JUDGEMENT ON THE SLIDING SCALE. DOLPH IS PROBABLY RIGHT THAT UNDER CURRENT CONDITIONS IT WOULD OPERATE TO THE DIS-ADVANTAGE OF SOME COMPANIES. BUT MUCH DEPENDS ON WHAT REQUIREMENTS THE GOV WILL TRY TO LEVY BY WAY OF TECHNICAL SERVICES. FOR EXAMPLE, MENE GRANDE MIGHT BE ABLE TO CUT BACK ON THE SUPPORT IT CURRENTLY PROVIDES TO THE OPERATIONS IN EASTERN VENEZUELA. IT IS NOT INCONCEIVABLE THAT A BETTER PER-BARREL PROFIT COULD BE MADE ON A SMALLER FEE IN A LOW-OVERHEAD OPERATION.

6. THERE IS ALSO THE PROJECTED DISCOUNT FOR SALES TO NON-AFFILIATES. CREOLE MOVES TWO-THIRDS OR MORE OF ITS PRODUCTION THROUGH THE EXXON SYSTEM; SUN SELLS ALMOST ALL OF ITS PRODUCTION TO THE SPOT MARKET. FURTHER, THE LATTER COMPANY HAS A CURRENT DOLLAR PAYROLL OF TWO PEOPLE. AS ITS REPRESENTATIVE SAID (REFTEL), SUN'S ATTITUDE WILL BE DETERMINED BY ITS CALCULATION OF THE OPPORTUNITY FOR PROFIT-- AND IN THESE CONDITIONS THERE MAY WELL BE SUCH AN OPPORTUNITY.
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